NEW TRENDS IN FOREIGN REAL ESTATE INVESTMENT

by

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ABSTRACT

This research represents one segment of a joint study sponsored by the Massachusetts Institute of Technology's Center for Real Estate Development and the National Association of Realtors. The purpose of this research is to analyze foreign investment in the second tier cities of Atlanta and Phoenix, to update foreign investment in Los Angeles, Washington, D.C., and Chicago, and to research to what level foreign investors have vertically integrated backwards into other aspects of real estate development.

This study focuses on foreign investment in the Los Angeles, Washington, D.C., and Chicago markets. The central point of my research was to analyze the effect of the stock market crash upon foreign investment in real estate, and to quantify the current level of foreign investment in these three cities.

My findings indicate that the crash, and, or the intervention of the Ministry of Finance in Japan, caused initial negative effects in the fourth quarter of 1987. But beginning in January of 1988 foreign investment activity resumed. This activity has appeared stagnant in the first two quarters of this year because few buildings traded. Real estate professionals in these three cities, expect much stronger third and fourth quarters.

Currently foreign investment in the Los Angeles CBD is 70%, the Washinton, D.C. CBD is 33%, and the Chicago CBD is 20%.

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CHAPTER 1

INTRODUCTION

This report represents a follow up study on foreign direct investment in real estate in Los Angeles, Washington D.C., and Chicago. Research completed last year by five graduate students of the Center for Real Estate Development at the Massachusetts Institute of Technology involved separate studies on each of these cities. Each case study set out to identify major transactions by foreign investors, the nature of these transactions, and what criteria was used by the investors to make their investment decisions. The objective of the research was to discover if foreign investors in U.S. real estate differ from domestic investors, and if so, how they differ.

Last year a number of tentative conclusions were reached based on the combined findings of the three studies. These general preferences, tendencies, and patterns of foreign investors are summarized in the paper Understanding Foreign Investment in U.S. Real Estate, by Lawrence S. Bacow, Director of Research at the MIT Center for Real Estate Development.

This year's study revisits last year's conclusions and tests them against current trends. The paper evaluates how the post October 19th macroeconomic climate has altered the criteria used by foreign investors and how it has affected foreign interest in U.S. real estate. Through conversations with brokers, lenders, attorneys, and principals, the transactions that have taken place in the last year are identified to quantify the total level of foreign investment in real estate in these three cities.

Summary of Last Year's Findings

Last year's research found that significant differences exist among foreign investors of U.S. real estate. As is the case with domestic investors, different entities have different investment criteria. Pension funds and other large institutional investors have different objectives to satisfy than do construction companies and high net worth individuals. In general, nationalities tend to prefer types of investments that are common to their homeland. For example, the Japanese prefer grade A office space in downtown supply constrained locations, much like in Tokyo. Most foreign investors prefer commercial office buildings in the CBD. Some foreign investors, such as the British, Canadians, and Dutch, who have invested in office buildings, have also diversified into retail and residential investments. The Japanese have started to look at other types of investments, but they remain most interested in office buildings.

The investments of certain nationalities also reflect the experience and length of time in a particular market. For example, a British investor active in a particular market for a number of years would be more likely to invest in a development project in the suburbs than would a less experienced Japanese investor, who was relatively new to the U.S. market. The Japanese investor is inclined to take on less risk by investing in fully leased office buildings in the central business district.

That an investor is willing to risk more as he gains experience seems logical and leads to the conclusion that "The longer foreign investors are active in U.S. real estate , the more they appear to resemble domestic investors."[1]

One reason that recent foreign purchases of prime real estate have generated much excitement is that foreign investors have accepted lower returns than domestic investors and thus have been willing to pay high prices. The intense competition for trophy buildings and the subsequent bidding down of the cap rates used to calculate property values have had the effect of knocking many domestic buyers out of certain markets.

The world perceives the United States as the "safest haven" for investment capital because of its strong economy and its stable political system. As Japan, the U.K., Australia, and France have relaxed their overseas investment restrictions, foreign capital has flowed into the United States and local markets have become increasingly international. In supply-constrained markets, especially the central business districts of prime cities, foreign investors have been willing to pay a premium for high-profile, well located properties. Because this type of property rarely trades, the prices paid may be appropriate. Foreign investors see this type of investment as the safest place for their money, especially if they can have guaranteed returns from a seller in return for a higher purchase price. To the foreign investor, the Japanese in particular, they are not paying too much for properties. The Japanese have found that the 2%-3% returns they are accustomed to in Tokyo can be translated to

6% and 7% returns in the United States. When one looks at current exchange rates, the foreign investor may be achieving an even greater bargain than it appears. If one looks at the incredible increase in land values in Tokyo, Bombay, London, and N.Y., where there exists extreme land and supply constraints, record prices for properties that have traded recently are consistant with prices in other parts of the world.

Another reason foreign investors are willing to invest at the levels they do is that they are culturally inclined to hold real estate for long periods of time. This explains their desire for well-located, well-built, modern buildings that will appreciate at a much greater rate than less desirable buildings in suburban locations.

For the Japanese, an important aspect of an investment is the pride they are able to take in owning a signature building. In order to attain ownership of these properties that symbolize strength and power, they are willing to pay premium prices. They are not afraid to create a bidding war and are willing to accept lower returns if necessary.

One of the keys to success in working with the foreign investor is establishing a relationship before trying to talk business. An initial mutual line of communication, be it of the weather or one's family, makes the foreigner more comfortable and receptive to further discussions.[2]

Foreign investors are accustomed to structuring simple deals, usually all cash or all debt secured by corporate financial statements. Non-recourse loans are not used, and if they were the moral obligation to repay is so great that the term "non-recourse" has no meaning.[3]

Last year's research taught us to accept some of the conventional wisdom acquired over the years relative to foreign investment and to dismiss the exaggerated reports from the media about excessive prices being paid for property. The suggestion that foreign ownership of U.S. property is harmful is ridiculous. The knee jerk reaction is to condemn foreign ownership as if something sacred were being taken away. It is common to hear, "They're buying up everything. What is to come of our city?" In reality it is hard to pinpoint any harm in foreign ownership of U.S. real estate, particularly with office space or hotels, where it is in the new owner's best interest to manage the property well. In addition property cannot be physically removed from the country. With the total foreign ownership of all U.S. real estate at only 1%, one should not worry that our country's real estate is being controlled by foreigners.

Last year's research found that the Japanese, almost to the exclusion of all other nationalities, have been the most active foreign investors in the central business districts of Los Angeles, Washington D.C., and Chicago. Foreign investors are mainly invested in office buildings in the CBD's of the respective cities. They had begun to diversify geographically to the sub-markets and by product-type in Los Angeles, but less so in the other two cities. A number of conclusions about foreign investors were made last year. This study tests these conclusions and gives us the current market status of foreign investment in these three cities.

Chapter 2

FOREIGN INVESTMENT IN LOS ANGELES

Overview of last year's research.

Last year's research acquainted us with the rush by foreign investors, especially the Japanese, to place their capital into prime real estate in downtown Los Angeles. As of last year's study, foreign investors had accumulated 50% of the office buildings in the central business district. This high level of foreign investment demonstrates Los Angeles' new place as the financial center of the West. To international investors, San Francisco had been historically the most desirable in the West because of its strong financial sector. However, over the past 5 years downtown Los Angeles has changed from a regional business district to a true central business district. The resurgence of the downtown core has made Los Angeles the main business and financial center of the

West Coast and therefore the principal business center for the entire Pacific Rim. This centralization has prompted much of the recent boom of foreign investment in Los Angeles. In the past eight years the percentage of foreign owned office buildings has increased from 25% to 70%.

The Appeal of Los Angeles to Foreign Investors.

Before the great influx of Japanese investment, most foreign investors were the British, Canadian, German, and Dutch. But over the last three to four years, the Japanese have outbid domestic and other foreign investors for almost every class A office building to come on the market. Led by the aggressive Shuwa Investment Corp. with its purchase of the ARCO Plaza for $620 million in 1987, the Japanese have acquired over a third of all the office space in downtown Los Angeles.

Even though the press has portrayed the recent prices paid by Japanese as exorbitant and foolish, it is very hard to argue that such is the case. A closer look at their decion-making process shows that their purchases are based upon sound business sense. These well located buildings rarely trade and when they become available one must pay top dollar in order to win the bidding process for them.

The rationale the Japanese have used to make their gutsy play on the downtown office market has much to do with the current economic climate that has seen the strength of the U.S. dollar drop from Y260/U.S.$ to Y134/U.S.$, a 48% decline. U.S. property looks cheap to the Japanese, not only because of the increased strength of the yen but also because prices for property in their homeland have escalated to $20,000 per Sq. Ft. of raw land, forcing current yields in prime areas to as low as 1%.

Moreover, properties do not trade often in Japan. When a building is sold it is regarded as a sign of weakness or financial failure on the part of the seller. This situation leaves the Japanese investor with limited opportunities for capital investment. The liquid and very stable United States real estate market has thus become an alluring target for Japanese investors to expand and diversy their portfolios.

Because of Japan's recent trade surplus, many Japanese investors have accumulated dollars. With the obstacles for investment of these funds in Japan, these investors have brought their excess capital to the United States. The Japanese have invested heavily in U.S. treasuries and other

U.S. dollar-denominated fixed-income assets and have increased their investments in real estate as a natural hedge to these holdings and against inflation.[4] Real estate investment in the U.S. also offers higher returns, in the range of 7% to 10% as compared to 1% and 2% in Japan. When interest rates fell in the U.S. in the early 1980's, returns on real estate became comparable with long-term U.S. government bonds and the foreign investor could hedge his currency risk in an acquisition by borrowing in dollars. With upside potential of appreciation, real estate investments in the U.S. made perfect sense.

With the intention of putting much of their excess accumulated wealth into real estate, the Japanese, in search of the safest bet, have embraced Los Angeles and New York. New York because it is the financial capital of the world, and Los Angeles for its many close ties to the Pacific Rim.

Los Angeles is the fastest growing metropolitan area in the U.S., with a current population of 12.6 million that is expected to rise to 16.4 million by the year 2000.[5] As the ultimate melting pot, immigrants from Mexico and Asia seek out the area to find work and a better way of life. Because of its proximity to Mexico and its position as the gateway to the Pacific Rim, Los Angeles has gone through a rapid ethnic change during the past two decades. In 1970 the population was 86% white, whereas today this population group is now in the minority.[6] Today Los Angeles contains the second largest Japanese population outside of Japan, the second largest Chinese population outside of China, the largest Korean population outside of Korea, the largest Vietnamese population outside of Viet Nam, and the largest Philippine population outside of the Philippines.[7] Consequently, Los Angeles is tied in more closely with the Pacific Rim and has experienced increased investment in real estate by these countries. Satoru Jo, vice president of Cushman Realty Corp., puts the investment situation in better perspective: "Japanese investors want to invest where they are familiar and see familiar faces. Los Angeles has this to offer to them."[8] In downtown Los Angeles, for exapmple, Little Tokyo has become a much bigger Tokyo. Japanese development has changed the once marginal area into one that now offers a luxury hotel, fine restaraunts, and unique shops.[9]

The Japanese have invested heavily in Los Angeles because it is the the Pacific Rim's gateway to the United States. As the transportation and distribution hub of the southwest, and as the fastest growing cargo center in the world, with ports in Los Angeles and Long Beach, the area has become strategically very important to the Pacific Rim nations.

Today 60% of U.S.-Pacific Rim trade enters the United States through Los Angeles ports.[10]

The growing finance sector of Los Angeles is the driving force behind the current office market. Many East Coast banks and law firms have relocated or expanded to Los Angeles, recognizing the need for a presence in the West Coast. Many of the state's largest banks and S & L's are headquartered in Los Angeles, and it seems as though more companies will follow.

Los Angeles is a leader in aerospace, entertainment, agriculture, and insurance. It has the nation's largest manufacturing center and the largest concentration of high-tech firms, surpassing the Silicon Valley and route 128 in Boston. Because of its diverse economy, Los Angeles stands on its own, insulated from the impact of a downturn in any one sector.[11]

One reason Los Angeles has gained the favor of the financial world over its neighbor San Francisco is because Los Angeles has the room and willingness to grow. Proposition M, a prohibitive development restriction enacted two years ago in San Francisco, limits new construction in San Francisco to 400,500 Sq. Ft. a year. Because of this supply constraint, one might expect the city to become more attractive to foreign investors, but this constraint has caused an exodus to Los Angeles by many large companies and financial institutions. Its surrounding communities in the Bay area already congested, San Francisco can no longer satisfy the needs of the growing domestic and international financial communities. Los Angeles, with its phenomenal economic expansion, has emerged as the West Coast's prime financial center and thus the Pacific Rim's connection between the Far East and the financial markets of the rest of the world. With 126 foreign banks now located in Los Angeles, and with assets of all the financial institutions headquartered there and in Beverly Hills at the $252 billion mark, it now has almost 40% more total assets than the financial institutions headquartered in S.F.[12]

Los Angeles has come of age as a dynamic economy that has helped the state of California become the 6th largest economy in the world.[13] As the main port of entry and financial center of the Pacific Rim, it will continue to attract investors in real estate, manufacturing, and many other businesses from Japan and other countries in the Far East. The melting pot of many nationalities, Los Angeles represents the future for the United States as it leads our country into a 21st century that will see an increasingly globalized international market. The prospect of growth and prosperity in Los Angeles makes it a very desirable place for foreigners to invest their capital.

LOS ANGELES TODAY

Foreign investors view Los Angeles as one of the best places to invest in real estate. Based upon the perception that the area's economy is among the most stable in the United States, foreign investors have shown continued interest in buying Los Angeles real estate. To date the majority of foreign purchases have occurred in the downtown, central business district. The CBD interests foreign investors most because it is seen as the center of activity and thus the safest investment. To foreigners, owning property or having a presence in the center of town, historically symbolizes the mark of a leader. That the central business district in Los Angeles is currently 70% foreign owned is evidence of this belief.

Because the media have not had any record sales to write about lately, one might think that foreign interest to purchase real estate has waned in the wake of the stock market crash of October 19th. But in Los Angeles such a notion couldn't be further from the truth. Although present sales are not of the same magnitude as those of a year and two years ago, interest and demand for prime properties downtown remains high. There are a number of explanations for this. First, there are only a handful of buildings the size of the Arco Plaza. Second, the majority of the office space in the CBD is already foreign owned. And third, the remaining large class "A" buildings in the CBD which are not foreign owned, are not available because they are owned by large domestic institutions which usually hold their properties long term. Some of these institutions might be tempted to sell their property if offered the right price, but they will not sell because it is not possible to reinvest the money in buildings of the same magnitude. This last year has still seen a number of smaller deals in the $25M-$100M range, and brokers at the top firms are still very busy entertaining purchase inquiries.

Recent Foreign Purchases.

1. The Western Federal Building was purchased by Akira industries for $7.5M at a 7% capitalization rate.

2. Lehndorff of Germany sold its half interest in the Wells Fargo Tower to Meiji Mutual Life at a 6.0% cap. rate for $160M or

$300/Sq.Ft..

3. 1000 Wilshire Blvd. was purchased by Sumitomo life for $150M. The purchase was made with a guarenteed 7.0% return for 3 years.

4. The 12,000 Sq. Ft. 614 W.6th St. Building sold to a Japanese and United States partnership of Maruko and Kore for $2.0M.

Other investments

As an alternative to buying existing buildings downtown, foreign investors have begun to purchase land upon which to develop their own product. They are also spending more time looking for quality buildings in the sub-markets.

In the past few years, Japanese investors have become more educated about domestic ways of business and about how the city functions with its many different sub-markets. Los Angeles, unlike most cities, can offer institutional grade buildings in first class business locations outside of the CBD. These locations often have stronger office markets than downtown and can also offer high-visibility properties and good street addresses. An example of such a property is the Century Towers in Century City, recently purchased by Shuwa Corp.. As investment capital continues to flow to Southern California, less emphasis will be placed on puchasing property downtown and more time will be spent searching out good investment buildings in the strong sub-markets.

As they learn that some locations in sub-markets carry equal prestige to those at the center of the city, foreign investors will begin to accept certain sub-markets as viable investment locations. Based on the criteria that investors have used downtown, a building in a prestigious sub-market location with quality tenants now warrants a purchase. Satoru Jo puts it this way: "The Japanese investor, who looks to invest in a sub-market, wants a location that is recognizable by his peers. If an investor were to tell a friend that he just bought a building in Beverly Hills, the friend would say,'great,' but if he told him he just purchased in Cerritos, no matter how good the project, the friend would look at him as though he were crazy."[14]

As a "television city" with great exposure to the world, much of Los Angeles and its surrounding sub-markets are recognizable to the foreign investor. This makes the name areas, such as Beverly Hills, Westwood, and Hollywood special and more desirable. The next step for the investor is to learn about the respective real estate market. Mr. Jo, who is from Japan and used to work for Shuwa Corp. before he became Vice President of Cushman Realty Corp., has spent much of his time educating the Japanese investor about Los Angeles and its sub-markets. He says that "it is tough for investors to understand and relate to the other markets (outside of the CBD), but they are getting educated. It just takes time."[15] If the foreign capital that has flooded downtown is to continue its flow to the Los Angeles area, one can expect many more purchases outside of the CBD once foreign investors, especially the Japanese, become familiar and more comfortable with the sub-markets.

Purchases made in the Sub-Markets

1. The Century Towers at 1900 and 1901 Avenue of the Stars, in Century City, were purchased by Shuwa Corp. for $235M. Shuwa has also purchased the Santa Monica Square at a 7.75% cap. rate for $27M.

2. 100 Wilshire Blvd. in Santa Monica was purchased by Asahi Urban Development for $70M. They made the purchase with a 8% guaranteed return for 5 years.

3. Mondo Shoji of Japan purchased the Penn Corp. Building at a 7.0% cap. rate $24M or $378/Sq.Ft..

4. The Beverly Glen Plaza was purchased by Haseko of Japan for $26M or $329/Sq.Ft..

5. 1990 Bundy, a 164,000 offfice complex sold to the partnership of Dai-Ichi and La Salle for $48.5M.

<u>Other Investors</u>

The initial source of Japanese capital invested in Southern California came first from lending institutions looking for a presence in Los Angeles. These institutions, after establishing domestic relationships and an understanding of the market, were followed by the large corporations with which these banks had close relationships. Other large corporations and wealthy individuals followed and the rush was on to invest as the leaders in the various industries invested in Los Angeles.

With the unparalled appreciation of real estate in Japan, companies can leverage holdings at home by investing in seemingly cheap and accessible U.S. real estate for which they can expect to achieve greater returns than at home. Because of the increasing comfort level demonstrated by large institutional investors, today's market has seen an increase in the number of smaller companies and private individual investors searching for more reasonably priced real estate with higher returns than can be found downtown. They tend to look at all property types in all the sub-markets. These investors have learned from the experiences of the large corporations which preceeded them. They are shrewd investors, seeking buildings with good locations, sound anchor tenants, and sound property management.

The next few years should demonstrate whether or not these small foreign investors will be able to compete with domestic investors. Besides the advantage the yen has against the dollar and besides their potential willingness to accept lower capitalization rates, small foreign investors may not have the experience, knowledge, and backing to compete successfully. John Kerin, regional manager at Marcus and Millichap, has seen how it is harder for small foreign investors to compete. "To satisfy themselves and their banks in Japan, they hire the best market researchers, attorneys, and consultants. Because they are not thoroughly familiar with the market, this costly and time comsuming exercise can kill the deal for them."[16]

Most small foreign investors are just now coming into the market, and it is still unclear whether the relative due diligence expenses and time constraints associated with smaller projects can be overcome. That their larger brothers seem to have succeeded in their efforts to buy up much of downtown Los Angeles may give credence to the hypothesis generated from last year's work that over time as they become more educated they will act and compete more like domestic investors.

One reason for the continued interest in real estate in Los Angeles is a new tax that has been imposed on Japanese savings accounts. With a 20% savings rate one can expect much more capital to come to the States. Some of the more prudent and less experienced investors have taken the approach of buying only a partial interest in a property, so that they can learn the business from their domestic partner.

For the experienced, large institutions and real estate development companies, the alternative to investing in the sub-markets has been to vertically integrate backwards into development downtown. Either on their own or with the assistance of domestic partners, foreign investors have begun to develop class A properties as a means of investment.

Downtown is still the most appealing area to foreign investors because of its status as the center of international trade and business on the West Coast. With the lack of signature buildings available for purchase downtown, investors have seen development as the only way to add quality buildings to their portfolios without paying excessive cap rates. By developing and not investing in second-rate buildings, these investors can maintain their pride in ownership of first-class buildings in a prime location.

1. An example of this is the purchase by Mitsubishi Estate of Citicorp Plaza, Phases II and III. Phase II, a 500,000 Sq. Ft. tower, is planned for a 1991 completion date.

2. Another project in the planning stage is 865 South Figueroa, a 35 story, 690,000 Sq. Ft. building being developed by Manufacturers Real Estate of Canada.

3. Tasei Takenaka and California First Bank with Lincoln Properties are planning to build a 27 story, 570,000 Sq.Ft. U.S. Headquarters for the Bank of Tokyo.

4. Mitsui Fudosan is now constructing the Mitsui Fudosan Tower at Figueroa and Wilshire Blvd. Mitsui originally made its purchase in 1979 as a land play to flip for a profit, but was

unable to get the right price and has thus decided to do the development. It proceeded by hiring Gerald Hines on a fee basis to develop and manage the property.

5. Mitsui Fudosan has also purchased property at 8th and Hope and used its air rights for another site.

6. Shuwa has purchased for future development an entire block at 811 S. Flower, The Southern California Gas Co. site. They paid $100M for the 250,000 Sq. Ft. site.

<u>Other Types of Investments</u>

<u>HOTELS</u>

Most foreign investment in Los Angeles real estate has been in office buidings in the CBD. We have discussed the gradual move by investors to the sub-markets but have not touched on investments of a different product type. Foreign investors have always had a desire to invest in hotels. Last year saw some record purchases.

1. Most publicized was the $200M purchase of The Beverly Hills Hotel by the King of Brunei from Marvin Davis who had

purchased the landmark less than a year earlier for $125M.

2. Paolo Gucci purchased the extravagant chain of west-side hotels that Severyn Ashkenazy developed for the 1984 Olympics. Built in the mold of his famous L'Ermitage Hotel, these hotels were very expensive, but not nearly as successful.

3. The Mayflower Hotel at 515 S. Grand, downtown was recently purchased by The Ayala Group of the Phillipines. The interior of the 192 room hotel is being reconstructed and is expected to be finished by the end of the year.

4. The Westin Bonaventure is currently on the market and has received a great deal of interest by foreign investors.

5. Yasuda Trust for a group of Japanese investors has purchased Broadway Plaza at 700 S. Flower for $200M. This mixed use project has over a million Sq. Ft. of office space and a 487 room hotel.

Golf Courses

To the dismay of many local citizens, the Riviera Country Club in Pacific Palisades was recently sold to a group of Japanese investors. This may seem harmless on the surface if looked at in the same light as foreign purchases of office buildings, but it has caused an uproar by the club's members and local politicians. The negative effects are still unclear, but the feeling of not being able to preserve the ownership of the club has many people worried. The loss of one of Southern California's landmarks, rich in sports tradition, to a foreigner has people in a state of disbelief.

On the other hand, the recent purchases of PL Malibu Golf Course, Valencia Country Club, and La Costa Hotel and Spa have caused less of a reaction by the the populace. All three projects are profit-making ventures. La Costa, which was purchased by Sports Shinko for $250M is a resort that will continue to cater to its guests. PL has remained open to the public, and Valencia has become a private club. With the Riviera purchase the fate of its members is still uncertain.

Residential

In anticipation of continued investment by the Japanese, the top residential brokerage firms have taken their sales pitch for the large estates in Beverly Hills and Bel-Air to Tokyo. Merill Lynch's Rodeo Realty, a brokerage house specializing in homes worth $1 million or more, has gone to Japan with a video of its pricey listings and has also televised via satellite from a home that is on the market for $9.5M. Working with a Japanese firm on marketing techniques, Rodeo hopes that it can generate the same interest in its West-side real estate listings as there has been for the large residential properties in Hawaii.[17] Although no sales have been made as a direct result of these efforts, some deals are in negotiation, and others have closed via different sources.

The Japanese have been buying homes in Hawaii for corporate and personal retreats, and with the amount of investment they have made in Los Angeles it makes sense that they want homes for their employees to stay in and for their children, should the latter attend college there. Tom Furlong of the Los Angeles Times writes, "South side, west side, all around Southern California, the influence of the Japanese in the local housing market is expanding. It is going on slowly, quietly, inexorably--a natural byproduct of Japanese business investments whose profiles in greater Los Angeles continue to grow."[18]

Recent Sales

1. A Japanese businessman paid $556,000 sight unseen for a "fixer-upper" home where he will stay while here from Japan on business trips.[19]

2. A senior executive for Shuwa Corp. purchased a home in Beverly Hills for $2.9M.[20]

3. A Japanese corporation has purchased 811 Strada Vecchia Rd. for $7.0M and 781 Bel Air Rd., the old Jeanette McDonald house, for $4.5M. 811 was purchased for its view to the ocean and its 2 acres of flat land nestled in the hills of Bel Air. 781 was purchased as a guest house for the estate that is planned at 811.

4. Haseko of Japan, recently built 23 high-priced condos in Beverly Hills, 17 of which were bought by Japanese.[21]

5. Haruki Yamada has been buying houses in San Clemente and Laguna Niguel and selling them back home in Japan. Yamada advertises by stuffing Japanese newspapers with color brochures of these Orange County homes.[22]

6. Currently a Hong Kong Investor is negotiating to invest $2.5M for a 50% share of a planned developemnt at 761 Bel-Air Rd.

Retail

In downtown, many of the ethnic neighborhoods have also gone through change and revitalization. Evidence of greater spending power can be seen by the thriving retail businesses in Little Tokyo, Chinatown, and what is now Koreatown. Broadway, an area that years ago was once the city's main retail area, has also progressed from its recent years of despair. Today this area, with its Asian and Latino shop owners, is a booming retail stretch equal to the thriving retail areas on the west-side.[23]

Much like Japan of a few years ago, Taiwan and Korea are building up enormous trade surpluses with the U.S. As these countries ease their regulations regarding the export of capital, a great deal of this money is likely to be invested in California real estate. Already the effects of the early emigre capital flow can be seen by the Taiwanese representation in Chinatown and by the birth of Koreatown along Western and Vermont Avenues. For the Taiwanese most of their investment has been in smaller motels that can be run by families and other emigre friends. For the Koreans much of their emigre capital has gone into retail businesses.[24] Because the investments to date by the Koreans and the Taiwanese have been in small scale operations spread out over less dense retail areas, it is hard to say where and in what product type the larger corporations of these powerful Pacific Rim countries will invest in the future.

Conclusion

The recent decision by the Japan's Ministry of Finance, which regulates Japan's insurance industry, to triple to 30% the capital that life insurance companies and trust banks can invest in real estate should guarantee a continued flow of capital into U.S. real estate. In addition, the excessive tax upon savings accounts that has gone into effect, will encourage many individuals to invest their capital savings. Because land is so expensive and hard to come by in Japan, and because of the 95% capital gains tax, these samller investors may look to the more liquid and seemingly inexpensive U.S. real estate market as a safe home for their capital.

This new flow of capital is likley to continue to seek out investment opportunities in the CBD. Today foreign investors have developments under construction, developments being planned, and developments they would like to build. Along with the domestic development projects and the planned expansion of the Convention Center, it is clear that those of wealth and wisdom have expressed their confidence in Los Angeles's continued growth and in the overall stability of the Southern California economy. If the trade growth continues in line with the planned expansion, Los Angeles will have established itself as a world city and center for international trade and finance. The Los Angeles-Tokyo economic nexus will soon rival that of New York and London.

APPENDIX 2

FOREIGN REAL ESTATE INVESTMENT DATA IN THE LOS ANGELES CBD

FOREIGN REAL ESTATE INVESTMENT IN LOS ANGELES

*-Under Construction PL-Planned R-Rehab

	PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
1.	Arco Center 7th & Bixel	Transpacific Development/ USA	1987		661,000 Sq. Ft.		1988*	Financed by a Japanese Bank.
2.	ARCO Towers 515 & 555 S. Flower	Shuwa Investments/ Japan	1986	$630M	2,249,498 Sq. Ft.	$280/Sq. Ft.	1972	Purchased at 8.0% Cap rate.
3.	AT&T Tower 611 W. 6th St.	Mitsui-Fudosan/ Dai-Ichi Life Japan	1979 1986	79M $75M (50%)	698,000 Sq. Ft.	$113/Sq. Ft. $215/Sq. Ft.	1968	Preferential return of 7.5%
4.	Bank of Tokyo Bldg. 620 W. 6th St.	Nomura/Japan	1983	$20.25M	110,655 Sq. Ft.	$183/Sq. Ft.	1955	
5.	Bank of Calif. Bldg. 550 S. Flower St.	Bank of Calif. & parent, Mitsubishi Bank/Japan	1986		150,000 Sq. Ft.		1956	Acquired as part of Bank of California purchase.
6.	The Bonaventure Hotel 404 S. Figueroa	Mitsubushi International/ Japan			40,000 Sq. Ft.		1977	
7.	Broadway Plaza 700 S. Flower St.	Japanese Investors/ Japan	1987	$210M	1,020,000 Sq. Ft. 487 Room Hotel	$196/Sq. Ft.	1973	A group of Japanese investors through Yasuda Trust purchased this property at a 6.5% Cap rate.
8.	Brooks Brothers Bldg. 520 7th St.	USA Pacific Atlas/ Japan			95,000 Sq. Ft.		1910	
9.	California First Bank 630 W. 6th St.	Nomura Real Estate/ Japan	1983	$21.5	101,394 Sq. Ft.	$212/Sq. Ft.	1956 1966R	Purchased at 8.5% Cap rate.

FOREIGN REAL ESTATE INVESTMENT IN LOS ANGELES

*-Under Construction PL-Planned R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
10. California Pacific National Bank Bldg. 609 S. Grand	Lehndorff/ Germany	1981	$10.2M	99,000 Sq. Ft.	$103/Sq. Ft.		
11. Calif. Plaza (Phase 1) 300 S. Grand Ave.	Metropolitan Structures/ Metropolitan Life/ Shapell Industries/ Goldrich & Kest/ Cadillac Fairveiw USA/Canada	1986	$257M	936,864 Sq. Ft. 750 residential		1986	
12. Chase Plaza 801 S. Grand Ave.	Shuwa Investments/ Japan	1986	$130M	446,923 Sq. Ft.	$229/Sq. Ft.	1986	Purchased at 8.0% Cap rate.
13. Citicorp Plaza 2 & 3 825 So. Figueroa	Mitsubishi Estate/ Prudential/Ayrshire Japan/USA/USA	1987	$75M(75%)	1,759,648 Sq. Ft. Development	$85/FAR	1990PL	50% J.V. Development with Prudential.
14. Checkers Hotel 515 S. Grand	The Ayala Group/ Phillipines	1988		192 hotel rooms		1989*	Interior reconstruction.
15. Church of the Open Door/ Biola Hotel 536-558 S. Hope	Koll/Ohbayashi USA/Japan	1988	$23M	38,739 (lot size) 570,000 Sq. Ft.	$593/Sq.Ft.Land	PL	Being developed by Cal First Bank, Taisei Takenaka, and Lincoln Properties. Proposed Bank of Tokyo Headquarters.
16. Coopers & Lybrand Bldg. 1000 W. 6th St.	Platt Development/ Kumagai Gumi Ltd.	1988	$23M	96,754 Sq. Ft.	$383/Sq.Ft.Land	1926 1964R	Purchased for eventual tear down. 60,000 Sq.Ft. site.

FOREIGN REAL ESTATE INVESTMENT IN LOS ANGELES

*-Under Construction PL-Planned R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
17. Credit Union Plaza	Mitsubishi Trust/ Japan			50,000 Sq. Ft.			
18. Crocker Towers 333, 335 S. Grand	Prudential/Orient Finance Co./ USA/Japan	1986	$75M	1.225M Sq. Ft. 1.042M Sq. Ft.			
19. Crown Hill Development 3rd & Lucas	Chinese	1988	$29M	8.9 Acres	$75/Sq.Ft.Land		
20. Figueroa Plaza (Phase 1) 201 N. Figueroa St.	RCI (Raffi Cohen) Israel			307,556 Sq. Ft.		1986	
21. Figueroa Plaza (Phase 2) 211 N. Figueroa St.	RCI (Raffi Cohen) Israel			307,556 Sq. Ft.		1989*	
22. Gateway Plaza Temple & Figueroa	Aoki Corp/TSA International/Naimon Co. Japan/USA/USA	1984	$21M	177,622 Sq.Ft.land 717,615 Sq. Ft.		PL	Planned mixed use project. Hotel, Condos, Office, and Retail. Land was purchased for $118/Sq.Ft.
23. Giannini Place 649 S. Olive St.	Giannini Place Assoc. Britain			120,000 Sq. Ft.		1923 1986R	
24. Guardian Bank Bldg. 800 So. Figueroa Blvd.	Shuwa Investments/ Japan	1986	$32.5 M.	122,000 Sq. Ft.	$226/Sq. Ft.	1982	Purchased at 8.0% Cap rate.

FOREIGN REAL ESTATE INVESTMENT IN LOS ANGELES

*-Under Construction PL-Planned R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
25. Heron Building 510 W. 6th St.	Heron Properties Inc./ Britain	1982	$16.55M	220,000 Sq. Ft.	$75/Sq. Ft.	1922 1988R	Currently on the market for $30M.
26. International Tower 888 S. Figueroa St.	International Bank of California/ Philipines	1985	$82M	412,000 Sq. Ft.	$200/Sq. Ft.	1985	Developer Victor Wong built for $35M and has it on the market for $105M fully leased.
27. LA World Trade Center 350 S. Figueroa St.	Haseko/ Japan	1987	$80.5M	344,690 Sq. Ft.	$234/Sq. Ft.	1974	Purchased at 6.2% Cap rate.
28. Linder Plaza 845 S. Figueroa St.	Bank of Tokyo/ Japan		$17M	98,000 Sq. Ft.		1973	A "tear down" bldg.
29. Manulife Plaza 515 S. Figueroa St.	Nomura/ Manufacturers Real Estate Japan/Canada	1986 1982	$63M	386,216 Sq. Ft.	$326/Sq. Ft.	1982	Nomura purchased a 50% interest with a 7.7% initial yield.
30. Mitsui Development Site 8th & Hope	Mitsui Fudosan/ Japan						Future development site. Air rights have been moved to another site
31. Mitsui Fudosan Tower Wilshire-Figueroa	Mitsui Fudosan/ Japan	1979 Land Purchase		1M Sq. Ft.		1990*	Gerald Hines Co. will develop and manage the 50 story building for a fee.
32. One Wilshire Building 624 S. Grand Ave.	Paramount Group/ West Germany	1967	$113M	569,439 Sq. Ft.		1968	

FOREIGN REAL ESTATE INVESTMENT IN LOS ANGELES

*-Under Construction PL-Planned R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
33. Oviatt Building 617 S. Olive St.	Mitsui-Fudosan/ Lehndorff Japan/Germany	1984	$13.5M	87,000 Sq. Ft.	$155/Sq. Ft.	1928	Purchased at 7.5% Cap rate.
34. Pacific Financial Canter 800 W. 6th St.	CapCount America/ Britain			206,731 Sq. Ft.		1973	
35. Pacific Sunrise Towers	Taiwan		$90M				
36. The Park 261 S. Figueroa St.	Matlow-Kennedy/ Mahboubi/Prudential USA/Iran			234,000 Sq. Ft.		1980	Five five story buildings.
37. South Figueroa Bldg. 865 S. Figueroa	Manufactureres Real Estate/Canada	1987		693,000 Sq. Ft.		1990PL	
38. Southern Calif. Gas Co. Site (City Block) 810 S.Flower	Shuwa/Japan	1987	$100M	250,000 Sq. Ft. Site	$400/Sq. Ft.	N/A	Three year lease back from So.Cal. Gas Co.
39. Standard Oil Bldg. 609 W. Olylmpic Blvd.	Japan			100,000 Sq. Ft.		1930	
40. State Mutual Svgs. Bldg. 626 Wilshire Blvd.	Toyo Real Estate/ Japan	1985	$25.75 M.	143,200 Sq. Ft.	$179/Sq. Ft.	1967	

FOREIGN REAL ESTATE INVESTMENT IN LOS ANGELES

*-Under Construction PL-Planned R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
41. Tokai Bank Bldg. 530 W. 6th St.	Kuwait	1988		140,246 Sq. Ft.		1927 1979R	
42. Union Bank Square 445 S. Flower St.	Equitable/Nippon Life USA/Japan	1984	$175M.	605,943 Sq. Ft.	$289/Sq. Ft.	1967	
43. USA Pacific Atlas Site	Pacific Atlas/ Japan	1987		150,000 S.F.land	$300/Sq.Ft.land		Purchased entire block.
44. Variety Arts Bldg.	Israel						
45. WCT Bldg. 1100 Wilshire Blvd.	JCG Finance/ Taiwan			313,000 Sq. Ft.		1986	
46. Wells Fargo Bldg. 444 S. Flower St.	Grosvenor/Lehndorff Meiji Mutual Life Great Britain/Japan	1983 1988	$175M $160M (50%)	890,000 Sq. Ft.	$196/Sq. Ft. $300/Sq. Ft.	1981	Lehndorff of Germany sold its 50% interest to Meiji Mutual Life at 6.0% Cap rate
47. Western Federal Bldg. 824 Wilshire Blvd.	Akira Industries/Japan	1987	$7.5M	28,322 Sq. Ft.	$265/Sq. Ft.	1979	7% yield with long term leases.
48. Woodbury University North	Maruko/Japan	1988	$6.25M	30,000 Sq.Ft.land			Planning a 182,000 Sq.Ft. office building.

FOREIGN REAL ESTATE INVESTMENT IN LOS ANGELES

*-Under Construction PL-Planned R-Rehab

	PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
49.	8th & Figueroa site	Bank of Tokyo/ Japan						
50.	400 South Hope Bldg.	O'Melveny & Meyers/ Olympia & York USA/Canada			661,750 Sq. Ft.		1982	Joint Venture development.
51.	611 Wilshire Blvd.	Avi Lerner/	1981	$16.7M	166,000 Sq. Ft.	$107/Sq. Ft.	1958	
52.	614 W. 6th St.	Maruko/Kore Japan/USA	1988	$2.0M	12,000 Sq. Ft.			
53.	617 W. 7th Bldg.	Hiro Real Estate/ Japan	1986	$25.25M	197,611 Sq. Ft.	$128/Sq. Ft.	1923 1979R	Purchased at 7.0% Cap rate.
54.	655 South Hope Street	Hammerson West/ Britain			95,000 Sq. Ft.		1986	
55.	800 Wilshire Building	Sumitomo Life/ Japan	1986	$48.3M	216,108 Sq. Ft.	$224/Sq. Ft.	1972	Purchased at 6.25% Cap rate.
56.	818 West 7th Street	Hammerson West/ Britain	1984	$74M	370,000 Sq. Ft.		1924 1986R	

FOREIGN REAL ESTATE INVESTMENT IN LOS ANGELES

*-Under Construction PL-Planned R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
57. 833 Wilshire Bldg.	Hinomura/Japan	1982	$11M	37,328 Sq. Ft.	$295/Sq. Ft.	1969	Purchased at 7.0% Cap rate.
58. 977 N. Broadway	Mitsubishi Trust/ Japan						
59. 1000 Wilshire Blvd.	Sumitomo Life/ Japan	1987	$150M	451,000 Sq. Ft.	$333/Sq. Ft.	1987	7.0% return guaranteed for 3 years

Total Sq. Ft. built, under construction or planned in the CBD that is Wholly or partialy owned by foreign interests. (1988)	21,980,669 Sq. Ft.
Approximate total Sq. Ft. built, under construction, or planned in the CBD. (1988)	31,000,000 Sq. Ft.
% wholly or partially owned by foreign interests.	70.91%

While every attempt was made to be thorough and accurate, some foreign owned properties may have been overlooked, and some inaccuracies may exist in the data.

APPENDIX 2A

FOREIGN REAL ESTATE INVESTMENT DATA
IN WEST LOS ANGELES

FOREIGN REAL ESTATE INVESTMENT IN WEST LOS ANGELES

*-Under Construction PL-Planned R-Rehab

	PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
1.	Beverly Glen Plaza Santa Monica Blvd.	Haseko/Japan	1987	$26M	79,000 Sq. Ft.	$329/Sq. Ft.		Purchased at a 7.5% cap rate.
2.	Century Towers 1900-01 Ave. of the Stars	Shuwa/Japan	1987	$235M	1.2M Sq. Ft.			
3.	Fox Plaza 2121 Ave of the Stars	LaSalle/Dai-Ichi USA/Japan	N/A	$320M	714,000 Sq. Ft.	$448/Sq. Ft.	1987	Property is in escrow. 6.0% cap rate.
4.	Home Federal Bldg. 9720 Wilshire Blvd.	Midland Bank/ Great Britain						
5.	La Collonade Camden & Santa Monica	Chiyoda Trading USA Inc./ Japan				$550/Sq. Ft.		Mitsubishi Trust purchased for Chiyoda Trading.
6.	Landmark I Brentwood	Nansay/Japan						Convertable Debt on Building
7.	Olympic Plaza	Nansay Corp./Japan	N/A	$60M	238,000 Sq. Ft.	$252/Sq. Ft.	1983	Property is in escrow.
8.	Penn Corp Bldg. Wilshire Blvd.	Mondo Shoji/Japan	1987	$24M	85,279 Sq. Ft.	$281/Sq. Ft.		Purchased at a 7.0% cap rate.
9.	Santa Monica Square 201 Santa Monica Blvd.	Shuwa/Japan	1988	$27M	71,366 Sq. Ft.	$378/Sq. Ft.	1984	Purchased at a 7.75% cap rate.

FOREIGN REAL ESTATE INVESTMENT IN WEST LOS ANGELES

*-Under Construction PL-Planned R-Rehab

	PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
10.	The Riviera Country Club Pacific Palisades	Japanese Investors	1988	$108M				
11.	100 Wilshire Blvd.	Asahi Urban Development/ Japan	1987	$70	250,000 Sq. Ft.	$280/Sq. Ft.	1987R	8% guarantee for 5 years.
12.	1990 Bundy	LaSalle/Dai-Ichi USA/Japan	1988	$48.5M	164,296 Sq. Ft.	$295/Sq. Ft.	1983	Purchased at a 7.0% cap rate.

Total Westside Sq. Ft. wholly or partially owned by foreign intersests. 2,801,941 Sq. Ft.

While every attempt was made to be thorough and accurate, some foreign owned properties may have been overlooked, and some inaccuracies may exist in the data.

CHAPTER 3

FOREIGN INVESTMENT IN WASHINGTON, D.C.

Overview of Last Year's Findings.

Last year's research taught us many things about foreign investment in Washington, D.C.. Based upon last year's research, foreigners owned 15.9 million Sq. Ft. of space or approximately 12% of the total D.C. office market. The largest foreign owners were the British followed by the Japanese and the Canadians. The majority of foreign investment is in office space because investors most easily underestand this type of investment. It is less management-intensive than other property types, and leases can be structured to match investment criteria.

The Appeal of Washington, D.C. to the Foreign Investor

Foreign investors recognize Washington, D.C. as one of the safest cities in the United States to invest in. Much like Los Angeles, investors target it for its growth potential and stable economy. In the past five years, it has grown in employment, population, and income. Because of its inherent stability and security as the nation's capital, the Washington, D.C. market is relatively insulated from economic recession, thus making it a desirable place for foreign capital investment.

Washington, D.C. was blessed with the intelligent city planning of Pierre L'Enfant. He designed a European style city with long diagonal vistas cut across the typical square blocks. With the height limit restriction that was imposed in 1902 by the Senate Park Commission to preserve the views of the Washington Monument, Washington, D.C. remains a beautiful city of small scale.

The downtown area is constrained by a 130 foot height restriction in the District, with the exception of certain areas along Pennsylvania Ave., where the limit is 160 feet.

As a result prices/buildable FAR Sq. Ft. are some of the highest in the nation at $150/FAR Sq.Ft.. This height restriction helps to entice foreign investors to the area because it limits the total square footage for a site. Investors see this as an advantage because they are able to evaluate the potential competition near a particular site. Because a skyscraper of great density cannot suddenly be built next to an investor's building, there is less risk of competition.

The downtown office market has four distinct sub-markets: the Central Business District, Capital Hill, West End, and East End. These sections of the District lie within an area south of Massachusetts Ave., North of Pennsylvania Ave., east of the Georgetown area, and west of the Capital. North of Massachusetts Ave. is mostly residential, and south of Pennsylvania Ave. are the numerous Government buildings.

These streets delineate the commercial zone of the District. Essentially, all office development is funneled into this small land which has a height constraint. Land has thus become a precious commodity which developers are willing to pay as much as $1,500/Sq.Ft.. Presently there is approximately 27M square feet of developable FAR left in the downtown area. At the current absorption level of 2.9 million square feet per year, the supply of office space should run out by the turn of the century.

Land constraints are a familiar and comforting concept to investors from areas such as Tokyo, Hong Kong, and London, where land values have skyrocketed. The rate of appreciation in these cities has not yet been realized in Washington D.C., but may some day when there is no more land to develop.

Foreign investors are also drawn to the D.C. market because there are a number of properties to choose from, all of which are in a reasonable price range. Because of the height limit, most buildings are small in total square footage and priced in the \$20M-\$40M range, making them accessable to the small investor. The first-time buyer is thus afforded a cheaper cost of entry into the market.

Washington, D.C. Today

To date, most foreign investment is in office buildings in the central business district. Of the approximate 72,000,000 Sq. Ft. of built and planned office space in the District, foreign investors currently own 33%. The British own the most property, followed by the Japanese, the Dutch, and the Saudis respectively.

Last year, with 5 purchases the Japanese were the most active of the foreign players. Both the Dutch and the Saudis made 2 purchases and Canada made 1. The British, the largest foreign owners of real estate in Washinton, D.C., made only purchases for future development or rehabilitation. The current purchase activity indicates interest amongst foreign investors in the market, but because fewer buildings have traded, this year marks a slow down from last year's pace. Most of the aforementioned purchases were made prior to the stock market crash of October 19th. After this date, deals in the process of closing were held up and tabled until the 1st of this year. The 2nd and 3rd quarters of 1988 have seen an increase in overall purchase activity, but most of the large deals to close lately have been by domestic pension funds.

The last major purchase by a foreign investor was made only days before "the crash". The sale was that of Mortimer Zuckerman's U.S. News & Report Bldg. to Shuwa Corp. of Japan. Shuwa, a maverick purchaser of U.S. real estate, paid a spectacular $500/Sq.Ft. or approximately $80M for the relatively new building. This sales price broke all records in Washington, D.C. for $/Sq.Ft.. While this is newsworthy, it is also deceptive because U.S. News & Report's master-lease of the building calls for exorbitant, escalating rent payment. From Shuwa's point of view, it bought a new class A building with a long-term, high-yielding lease from a quality tenant. It also gained a market presence that it hopes will lead to many other deals.

Most real estate professionals say that the crash caused a "blip" in the market from October until January, after which activity resumed to its normal pace. The short term effect seems to be a more quality and price conscious investor. This is certainly one reason for the lack of sales to foreigners this year.

John Kyle of Vector Realty, and Bob Pinkard of Cassidy and Pinkard, say that the main players in today's market are the Japanese, and that "they have been less active because the Ministry of Finance in Japan has intervened."[25] This entity, that oversees Japan's insurance and pension fund industries, has voiced its desire to see Japanese investors buy more competitively, thereby avoiding the high purchase prices that generate negative press and act as a source of the "Japan-Bashing" issue. With or without the Ministry's suggestion, the publicity of overpaying has been embarassing, and the Japanese are no longer anxious to be the greater fool in their bid for prime real estate. Whereas some purchases were made at a 6.25% capitalization rate, the new barrier seems to be 6.75%.

There are other reasons for the decrease in purchase activity. Chris Camalier of Wilkes, Artis, Hedrick & Lane, explains the situation as one in which "the Japanese came into the market paying lower cap rates to establilsh a presence. Having done so they don't have to go out and search for deals. All the deals now come to them with sellers' hopes of a high purchase price. They can then be more selective and act more competetively."[26] It is also widely recognized that many initial purchases are made to satisfy a buyer's image and ego and that subsequent purchases are made because they are sound investments.

Other profesionals ascribe the lack of sales to seller greed. Because of the prices paid in 1987, some sellers would like to think that they can sell their buildings at a 6.0% cap rate. This will not happen in the near future. This type of seller, who would raise a sale price if he knew a Japanese investor were interested, has forced Japanese investors to utilize local representatives to shield their identities. Identity of ownership can further be hidden if the investor purchases a partnership share as opposed to making and outright purchase. In the case of the purchase of a partnership share there is no state tax requirement to disclose the investor's identity or the sales price. Noises on Capital Hill that the Japanese are buying up the U.S. have also made investors demand anonymity.

Rusty Lindner, President of Bear Saint Properties, which is currently developing a 900,000 Sq. Ft. office building called Independence Sq., says "the crash had more of an effect domestically than it did on foreign investment. Because of the volatility of the capital markets, there has been a flight by domestic pension funds to compete more for real estate. There remains a continued interest by foreign investors, but they are more quality-conscious."[27]

Warren Dalhstrom and Joe Moravec of Leggat McCall concur that quality is an important issue. Their feeling is that "the market for properties is no longer East vs. West but rather new vs. old."[28] Whereas the golden triangle used to be the hot market, some of the newer buildings with larger floor plates, on the East End are attracting many of the large, prestigious law firms. It will be interesting to see how this area of the district responds to the large quantities of space coming on the market in 1990 and 1991.

Of the recent purchases by foreigner investors, most have been of rehabilitated buildings or relatively new buildings. The British, Dutch, and Saudis have invested mostly in rehabs, while the Japanese have been purchasing new buildings.

The old Army Navy club which Faragate Associates purchased a few years ago and then recently rehabbed, has recently sold to a group of Dutch investors for $40M.

The Commonwealth and Hamilton buildings, both rehabs, were sold to Competrol Real Estate and Hadid Investment Group respectivley, both from Saudia Arabia.

The Japanese have purchased one newly rehabbed building and four relatively new buildings. As discussed above, the U.S. News & Report Building was sold to Shuwa for $500/Sq.Ft. or approximately $80M. The Demonet Building, built in 1984 was purchased by Mitsui Fudosan for $23.8M. 1025 Thomas Jefferson, built in 1984, was purchased by a Japanese individual for $96M. 2001 L, built in 1986, was sold to Mitsui Seimui for $55M.

The market in Washington, D.C. for office buildings is highly competitive between domestic and foreign institutional investors. Although foreign investment activity has increased in the 2nd and 3rd quarters of this year, most recent purchases have been made by domestic institutions and pension funds. These domestic entities, wary of their investments in the capital markets, have made a concerted effort to increase their real estate holdings in order to diversify their portfolios and to limit their downside risks.

The following are some of the domestic purchases made in the last year:

1. Bell Atlantic Pension purchased the Washington Building at a 6.7% cap rate, in November of 1987, for $77.75M or $390/Sq.Ft.. This building was renovated in 1986 and was 90% leased.

2. In February of 1988 a domestic pension fund purchased Jefferson Court for $96M.

3. In January of 1988, The California Teachers Pension Fund purchased two buildings from Aronoff at a 7.0% cap rate. 1990 M. St. was purchased for $23.5M, and 1120 19th St. was purchased for $25.5M.

4. The California Teachers Fund also purchased 1325 G St. at a 6.5% cap rate for $55M.

In a market place where most buildings will sell in the \$20M-\$30M range, these sales have been the most significant transactions this year.

Rather than purchase finished product, some foreign investors have vertically integrated backwards into development. Generally, these investors first made their entry into the D.C. market place by purchasing existing buildings. Now more familiar with the market, they are willing to take on development risks in order to achieve higher returns. This follows last year's finding that the longer foreign investors are active in the real estate market, the more they act like domestic investors.

The British, Dutch, Saudis, and Canadians are active in development. Presently there are 23 projects, (rehab and development) under construction or in the planning stages. The following are some of the more significant developments:

1. Hadid Investment group, a major player in town, representing Saudia Arabia, has planned a 525,000 Sq.Ft building on the block contained by 11th & 12th, and K & I streets.

2. DIHC of the Netherlands, in a joint venture with Gerald Hines, is developing a 465,000 Sq. Ft. building at 1300 Eye St. known

as Franklin Sq.. DIHC is also developing Market Sq. East and West in a joint venture with Trammell Crow. Each will consist of a 296,000 Sq. Ft. building.

3. Graycoat of Great Britain has purchased 1321 & 1331 H St. for $12.5M & $11.5M respectively. These buildings may be rehabbed, but the two parcels may be put together for a future development.

4. Manufacturers Life Co. of Canada is developing a 345,000 Sq.Ft building at 1350 I St. The project is due on the market in 1989.

There is no reason yet to beleive that the Japanese will engage in developement. Many feel that the Japanese, limited by their lack of human resources in the States, will not enter into development in Washington, D.C. any time soon. This may be true, but it hasn't stopped them from developing in other cities with the assistance of strong joint venture partners. There has also been a rumor that a Japanese construction company has been assembling land for development near Capital Hill. Jim Montanari of Cushman & Wakefield in New York says "This is typical of the big contractors. They don't invest in buildings, but rather, they invest in development transactions. They will take 10% of the risk and lay off the rest of the project in syndication back in Japan. These deals are sought after to support their construction business."[29]

Conclusion

Washington D.C. is a highly desirable city for foreign investment. Because it is the nation's capital it is recogonized internationally as a safe place for investment. Inherant in this recognition is that the federal government has a stabilizing effect upon the local economy, thus insulating it from economic downturns. The future growth potential is promising and adds to the area's desirability for foreign investors.

Appendix 3

FOREIGN REAL ESTATE INVESTMENT DATA

IN THE WASHINGTON, D.C. CBD

FOREIGN REAL ESTATE INVESTMENT IN WASHINGTON DC

*-Under Construction   PL-Planned   R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
1. American Medical Ass. 1101 Vermont Ave. NW	Nissei Realty/Japan	1986	$35.71M	161,201 Sq. Ft.	$221/Sq. Ft.	1981	10.0 FAR.
2. Army Navy Club 1627 Eye St. NW	Dutch Investors	1988	$40M	127,716 Sq. FT.	$313/Sq. Ft.	1986R	Purchase of Army/Navy Club Rehab. 9.0 FAR.
3. Board of Trade Bldg. 1129 20th St. NW	Prudential of UK/ Great Britain	1982	$22M	125,685 Sq. Ft.	$175/Sq.Ft.	1969	6.6 FAR.
4. Cag Bldg. 1019 19th St.	Banque Indosuez/ French	1986	$15M	89,812 Sq. Ft.	$167/Sq. Ft.	1972	10.3 FAR.
5. Chanin Bldg. 815 Connecticut Ave. NW	COMOFI Real Estate/Hadid Belgium	1988	$46M	133,977 Sq. Ft.	$343/Sq. Ft.	1964 1988R	Purchased on a land lease. Price determined by the lease terms. 9.7 FAR.
6. Colorado Building 1341 G St.NW	Greycoat/Great Britain	1985	$36M	132,720 Sq Ft.	$271/Sq. Ft.	1988R	10.0 FAR.
7. Columbia Sq. 555 13th St. NW	Deutschbank/Hines Germany/USA			530,000 Sq. Ft.		1987	Purchased a 50% interest. 10 FAR.
8. Commonwealth Bldg. 1625 K St. NW	Competrol Real Estate/ Saudia Arabia	1987	$25.3M	104,117 Sq. FT.	$243/Sq. Ft.	1941 1984R	24 FAR.
9. DAON Bldg. 1300 New York Ave. NW	Inter-American Development Bank	1987	$145M	726,679 Sq. Ft.	$199/Sq. Ft.	1983	9.9 FAR.
10. Demonet Bldg. 1155 Connecticut Ave. NW	Misui Fudosan/ Japan	1987	$38M	106,628 Sq. Ft.	$356/Sq. Ft.	1984	10.0 FAR.

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11. DRG Bldg. 1099 30th St. NW	Buvermo Properties/ Dutch		$14M	34,720 Sq. Ft.	$403/Sq. Ft.	1982	
12. Embassy Bldg. 1424 16th St. NW	GLM Corp/ Great Britain	1980	$2M	43,179 Sq. FT.	$46/Sq. Ft.	1918 1941R	6.6 FAR.
13. Embassy Suites Hotel 1210 22nd St. NW	C. Itoh/Shaw/Rose Ass. Japan/USA	1986	$37M	318-suites	NA	1988	C. Itoh provided the $37M construction loan for developer Charles Shaw.
14. The Esplanade Bldg. 1990 K St. NW	Mitsubishi Trust & Bank/ Japan	1986	$55M	272,983 Sq. Ft.	$201/Sq. Ft.	1978	Purchased at 6.8% Cap rate. 7.2 FAR.
15. Executive Bldg. 1030 15th St. NW	Banque Indosuez/Wilco Investments French	1986	$29.3M	190,281 Sq. Ft.	$154/Sq. Ft.	1963	10.0 FAR.
16. The Farragut Bldg. 900 17th St. NW	Ariadne(Royal Dutch Shell)/Dutch	1986	$33.6M	152,000 Sq. Ft.	$221/Sq. Ft.	1962R*	Purchased at 6.8% Cap rate. 10.2 FAR.
17. Ferris Bldg. 1720 Eye St.	COMOFI Real Estate/ Belgium	1985	$13M	67,310 Sq. Ft.	$193/Sq. Ft.	1968	8.7 FAR.
18. Flour Mill Bldg. 1000 Potomac NW	Dutch Inst. Holding Co./ Savage Fogerty Dutch	1983	$18.6M	107,665 Sq. Ft.	$173/Sq. Ft.	1980	3.5 FAR.
19. Foxhall Square 3301 New Mexico Ave.	Republic of Finland/ Finland			150,000 Sq. Ft.		1974	

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20.	Franklin Square 1300 Eye St.	Gerald Hines/Royal Dutch Shell USA/Dutch	1988		465,000 Sq. Ft.		1989*	Royal Dutch Shell provided equity financing.
21.	Gallery Square I & II 7th & H & G Sts. NW	Far East Trade Center Ass.			700,000 Sq. Ft.		PL	Project has been delayed several times.
22.	Hamilton Mall Bldg. 1375 K St.	M. Hadid/ Saudia Arabia	1987	$21M	113,085 Sq. Ft.	$186/Sq. Ft.	1921	10.2 FAR.
23.	International Bldg. 1319 F St. NW	Eastbild	1988	$12,358,930	58,349 Sq. Ft.	$211/Sq. Ft.	1981	8.7 FAR.
24.	The Investment Bldg. 1511 K St. NW	Olympia & York/British Property Corp. Canada/Great Britain	1987	$20M	250,000 Sq. Ft.	NA	1929	British Property Corp. purchased 50% interest for $20M. Plan to rehab in early 1990's.
25.	The Jefferson Bldg. 1225 19th St. NW	Buvermo Properties/ Dutch	1986	$12M	68,500 Sq. Ft.	$175/Sq. Ft.	1963 1987R	6.5 FAR.
26.	Judiciary Center 555 4th ST. NW	Kondoba USA Inc/Nagishima Japan	1987	$86.9M	313,779 Sq. FT.	$277/Sq. Ft.	1983	Occupied by GSA under a 10 YR. lease. 7.1 FAR.
27.	L'Enfant Plaza 950 L'Enfant Plaza	VMS Limited Partnership	1986	$67M	304,580 Sq. Ft.	$220/Sq. Ft.	1968	3.0 FAR.
28.	L'Enfant Plaza 470-90 L'Enfant Plaza	ESN Pension Fund/ Great Britain		$120M	650,000 Sq. Ft.	$185/Sq Ft.	1968	9.4 FAR.

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29. Longfellow Bldg. 1201 Connecticut Ave. NW	Graycoat/Grosvner Trust Great Britain	1985	$30.1M	177,930 Sq. Ft.	$169/Sq. Ft.	1941	10.1 FAR.
30. Market Sq. East 701 Pennsylvania Ave.	DIHC/Western Development/ Trammell Crow Dutch/USA	1987		296,956 Sq. Ft.	NA	1990*	DIHC has a 50% interest. The Land at 701-899 was purchased for $200M 10.0 FAR.
31. Market SQ. West 801 Pennsylvania Ave.	DIHC/Western Development/ Trammell Crow Dutch/USA	1987		296,956 Sq. Ft.	NA	1991	DIHC has a 50% interest. The Land at 701-899 was purchased for $200M 10.0 FAR.
32. McPherson Bldg. 901 15th St. NW	Deansbank/Prudential Great Britain/USA	1987	$37M	239,174 Sq. Ft.	$309/Sq. Ft.	1988	50% interest sold to Deansbank. 10.0 FAR.
33. Media Tech. Plaza 7th & Mass. Ave.NW	International Developers Inc. Italy			320,000 Sq. Ft.	NA	1990*	
34. National Bank of Commerce 1430 K St. NW	COMOFI Real Estate/ Belgian	1985	$7M	42,985 Sq. Ft.	$163/Sq Ft.	1963	9.6 FAR.
35. Olmstead Bldg. 1701 Pennsylvania Ave. NW	Grosvner Trust/ Great Britain	1987	$52.5M	176,829 Sq. FT.	$297/Sq. Ft.	1963	9.7 FAR.
36. One Franklin Sq. 1301 K Street NW	Prentice Properties Urban Dev. Canada	1987		560,000 Sq. Ft.	NA	PL	Prentice purchased all of Cadillac Fairview's interests nationwide. 10.0 FAR.
37. One Thomas Circle One Thomas Circle NW	Asahi Mutual Life/ Prudential/ Japan/USA	1986	$24.7M	210,754 Sq. Ft.	$234/Sq. Ft.	1981	Asahi purchased 50% interest for $24.7M. 9.2 FAR.

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38. Patrick Henry Bldg. 601 D St. NW	LHL Realty Corp./ Great Britain	1986	$35M	334,455 Sq. Ft.	$105/Sq. Ft.	1973	9.1 FAR.
39. Potomac Bldgs.	Unicorp/Canada	1987	$21M	326,280 Sq. Ft.	$65/Sq. Ft.	1969	Bldgs. are in poor shape and 100% leased to the U.S. Government. 8.5 FAR.
40. Tech World I,II, & III	International Developers Ltd./ Italian		$340M	2.5M Sq. Ft.	$136/SQ. Ft.	1989*	First phase is a hotel. There are rumors that IBM will become the anchor tenant. 10.0 FAR.
41. Three Lafayette Center 1155 21st St. NW	Meiji Life/ The Equitable Japan/USA			263,326 Sq. Ft.		1986	Meiji and Equitable each bought a 1/2 share in the property. They also extended all construction and permanent loans for the property. 6.6 FAR.
42. Trans Potomac Plaza N. Fairfax St. Alexandria,VA	Dutch Institutional Holding Co./Dutch		$50M	304,000 Sq. Ft.		1983	DIHC developed property.
43. Tysons Corner Shopping Center	Lehndorf/European Fund/Germany	1986	$160M	1.2M Sq. Ft.	$133/Sq. Ft.	1988R	Since the purchase project has been expanded to 1.8M Sq. Ft.
44. U.S. News & Report Bldg. 2300 N St.NW	Shuwa/Japan	1987	$80M	161,820 Sq. Ft.	$494/Sq. Ft.	1983	U.S. News & Report has a long term master lease for the building. Price was a record for D.C..
45. Walker Bldg. 734 15th ST. NW	UK America Property/ Great Britain	1981	$10.7M	72,400 Sq. FT.	$148/Sq. Ft.	1936	

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46. Washington Harbour 3000 K St. NW	KanAm/Western Development Germany/USA			564,000 Sq. Ft.		1986	10.0 FAR.
47. Washington Sq. 1050 Connecticut Ave. NW	Mitsubishi Bank/Tower Construction		$200m	637,552 Sq. Ft.	$314/Sq. Ft.	1982	Mitsubishi provided construction financing. 8.5 FAR.
48. Watergate 600 600 New Hampshire Ave. NW	British Coal Bd/ PanAm Properties/ Great Britain/USA	1986	$84M	253,830 Sq. Ft.	$331/Sq. Ft.	1971	5.5 FAR.
49. World Trade Center 400 Virginia Ave. SW	Hadid Group/ Saudia Arabia	1986	$38,541,575	219,128 Sq. Ft.	$175/Sq. Ft.	1985	
50. 11 Dupont Circle NW	Hadid Investment Group/ Saudia Arabia			140,050 Sq. Ft.		1974	Purchased land in 1984 for $6M.
51. 99 Canal St. Alexandria,VA	Dutch Institutional Holding Co./Savage Fogerty/Dutch		$125M	488,000 Sq. Ft.	$256/Sq. Ft.	1987	
53. 122 C St. NW	British Coal Board 2nd Intercontinental Properties/Great Britain	1980	$9M	117,832 Sq. Ft.	$212/Sq. Ft.	1967 1982R	
54. 555 12th St. NW	Manulife Real Estate/ Canada			400,000 Sq. Ft.		PL	
55. 717 14th St. NW	Ivera Corp./Dutch			115,600 Sq. Ft.		1927 1950R 1988*	

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56. 750 17th St. Nw	Manufacturers Real Estate/ Canada			115,206 Sq. Ft.		1989*	
57. 801 N. Capitol St. NE	Solomon Freshwater/ Great Britain	1986	$9.9M	89,372 Sq. Ft.	$182/Sq. Ft.	1966	4.7 FAR.
58. 810 18th St. NW	E.B.W. Inc./ Great Britain	1979	$.75M	27,500 Sq. Ft.	$27/Sq. Ft.	1925 1987R	
59. 816 Connecticut Ave. NW	Eagle Star Properties/ Great Britain	1984	$7M	22,950 Sq. Ft.	NA	1987	Purchased old blsg. and built new larger structure.
60. 1001 New York Ave. NW	Hadid Investment Group/ Saudia Arabia		$40M	180,000 Sq. Ft. 233,500 Sq. Ft.	$222/Sq. Ft.	PL	
61. 1001 Pennsylvania Ave. NW	Kokusai Kogyo/Cadillac Fairview/Lehndorff Japan/Canada/German	1986	$175M	758,796 Sq. FT.	$231/Sq. Ft.	1986	Kokusai Kogyo has provided the $175M construction financing and taken a 15% interest. Lehndorff Group is developing the property and taking a 45% interest. 12.0 FAR.
62. 1015 18th St.	Scottish Amicable Life Assurance Society/ Scotland			101,000 Sq. Ft.		1970	
63. 1020 19th St. NW	British Coal Board/ Great Britain		$36M	100,426 Sq. Ft.	358/Sq. Ft.	1983	

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64. 1023 15th St. NW	Dutch Consortium/ Savage Fogerty/ Dutch		$20M	52,000 Sq. Ft.	$385/Sq. Ft.	1985	
65. 1025 Thomas Jefferson St.	Japanese Individual	1988	$96M	275,705 Sq. Ft.	$348/Sq. Ft.	1984	
66. 1100 New York Ave. NW	Hadid Investment Group/ Saudia Arabia	1987	$25M	530,000 Sq. Ft.		PL	Purchased 22,018 Sq.Ft. of land for $1,135/Sq.Ft. Part of 1111 H St. demolition. Project will include historic Greyhound Bus Station.
67. 1111 E. St. NW	Manulife/ Canada	1986	$17.9M	124,749 Sq. Ft.			
68. 1146 19th St. NW	Scottish Widows Pension Fund/ Great Britain		$14.06M	45,075 Sq. Ft.	$312/Sq. Ft.	1986	Purchased at 7.0% Cap rate.
69. 1200 19th St. NW	Sumitomo Life/ London & Leeds Japan/Great Britain	1987 1985	$37M	226,300 Sq. Ft.	$164/Sq. Ft.	1964 1987R	Sumitomo purchased 50% for $37M.
70. 1201 F St. NW	Buvermo Properties/ Dutch	1987	$30M	24,000 SF raw land 230,000 Sq. Ft.		PL	10.0 FAR.
71. 1211 Connecticut Ave. NW	SIF Corp./ Saudia Arabia	1976	$5M	121,202 Sq. Ft.		1967	

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72. 1212 New York Ave. NW	Hadid Investment Group/ Saudia Arabia		$25M	120,000 Sq. Ft.	$208/Sq. Ft.	1987	
73. 1225 Connecticut Ave. NW	Buvermo Properties/ Dutch	1984	$34M	186,371 Sq. Ft.	$182/Sq. Ft.	1967	
74. 1229 Wisconsin Ave. NW	Rush & Tompkins/ Great Britain	1986	$7M	16,500 Sq. Ft.	$424/Sq. Ft.	1985	1.4 FAR.
75. 1230 & 1240 23rd St.	Kumagai Gumi/Rose Ass. Japan/USA	1986	$14.5M	33,000 Sq. Ft. of land.		1990*	Land purchase. $439.00/Sq. Ft.
76. 1321 H St. NW	Greycoat/ Great Britain	1987	$12.5M	89,540 Sq. Ft.	$140/Sq. Ft.	1923 1989R	Property was sold with 1331 H St. as a possible development site. $951/Sq.Ft. land. $112/FAR
77. 1331 F St. NW	Graycoat/Hanover Great Britain			118,000 Sq. Ft.		1989*	
78. 1331 G St. NW	Ivrea Corp./ Dutch			22,239 Sq. Ft.		1930	7.1 FAR.
79. 1331 H St. NW	Greycoat/ Great Britain	1987	$11.544M	77,451 Sq. Ft.	$149/Sq. Ft.	1964 1989R	Sold with 1321 H St. $1514/Sq.Ft. land. $178 FAR.

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80.	1333 New Hampshire Ave.	Lehndorf/European Pention Fund/Germany	1987	$77M	316,441 Sq. Ft.	$243/Sq. Ft.	1978	9.3 FAR.
81.	1350 I St.	Manufacturers Real Estate/ Canada			345,000 Sq. Ft.	NA	1989*	
82.	1401 New York Ave NW	Mitsui/Japan			164,553 Sq. Ft.		1983	
83.	1620 L St. NW	Hadid Investment Group/ Saudia Arabia			154,500 Sq. Ft.		1989*	
84.	1701 Pennsylvania Ave NW	Grovsner International/ Great Britain	1986	$53M	175,000 Sq. Ft.			
85.	1717 H St. NW	Maiatico			324,995 Sq. Ft.		1955 PL R	
86.	1750 K St. NW	Sumitomo Realty & Development Co./ Japan	1986	$30M	129,639 Sq. Ft.	$232/Sq. Ft.	1969	Purchased at 6.4% Cap Rate. 10.9 FAR.
87.	1835 K St. NW	Midland Bank Pension Trust	1982	$8.5M	62,200 Sq. Ft.	$136/Sq. Ft.	1964	8.2 FAR.
88.	1850 M St. NW	Manufacturers Real Estate/ Canada		$39M	335,000 Sq. Ft.	$116/Sq. Ft.	1987	Manulife developed property. 9.6 FAR.

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89. 1899 L St. NW	Longulf Trading Co./ Saudia Arabia	1983	$22M	136,924 Sq. Ft.	$160/Sq. Ft.	1978	10.1 FAR.
90. 1990 M St. NW	Lehndorff/Calif. Teacher Retirement Fund Germany/USA	1988	$23.5M	112,392 Sq. Ft.	$209/Sq. Ft.	1971	6.6 FAR. Purchased at a 6.5% cap. rate.
91. 2001 L St. NW	Misui Seimui/ Japan	1988	$55M	160,762 Sq. Ft.	$350/Sq. Ft.	1986	Sold by Markbough Viking/Great Britain @ 6.8% Cap rate. 10 FAR.
92. 2021 K St NW	Marigold Properties/ Dutch	1972	$6,448,000	154,036 Sq. Ft.	$41/Sq. Ft.	1971	6.7 FAR.
93. 2021 L St. NW	Amprovest/ Dutch	1984	$9.5M	52,527 Sq. Ft.	$180/Sq. Ft.	1969	6.7 FAR.
94. 2025 M St. Nw	Dai-Ichi Seimei America/ Dai Tokyo Real Estate Investment Corp./Equitable Real Estate Japan/USA	1987	$46.4M	173,715 Sq. Ft.	$267/SQ. Ft.	1970	Dai-Ichi and Dai-Tokyo each purchased a 37.5% interest for $23.2M. It is Dai-Tokyo's first U.S. real estate investment. Equitable will ratain 25% interest. 6.8 FAR.
95. 2029 K St. NW	Washington Development & Management/ Lebonese		$37M	27,528 Sq. Ft.		1969	6.9 FAR.

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96.	2501 M St. NW	Eroica NV		$13M	87,838 Sq. Ft.	$148/Sq. Ft.	1981	Buvermo has a 50% interest. 5.5 FAR.
97.	2555 M St. NW	DIHC-Savage Fogerty/ Dutch		$6M	39,925 Sq. Ft.	$150/Sq. Ft.	1975	3.9 FAR.

Total Sq. Ft. built, under construction or planned that is wholly or partially owned by foreign interests. (1988)	24,068,281
Approximate total Sq. Ft. built, under construction, or planned in the CBD. (1988)	72,000,000
% wholly or partially owned by foreign interests.	33.43%

While every attempt was made to be thorough and accurate, some foreign owned properties may have been overlooked, and some inaccuracies may exist in the data.

CHAPTER 4

FOREIGN INVESTMENT IN CHICAGO

Overview of Last Year's Findings

Last year's research on foreign investment in Chicago, found that foreign interests own 10% of the commercial space in the central business district. These foreign interests--namely, the English, Dutch, Germans, and Canadians--have had a presence in the Chicago market since the 1970s. The Japanese, who entered the market in 1986, are now the most aggressive foreign investors.

Most foreign investors in the Chicago market own property in other U.S. cities. With returns of 8%-10% they regard Chicago as a bargain compared to traditional coastal cities where returns have been bid down to the 6% and 7% range. Chicago also has a large supply of trophy buildings not yet owned by foreigners. Many of the local owners are holding out until they achieve higher occupancy levels whereupon they can demand a higher sales price. Investors seeking these office buildings are foreign life insurance companies, pension funds, construction companies, real estate development companies, and high net worth individuals.

The Europeans and Canadians, because they have been in the market for some time now, are most indistinguishable from domestic investors as they are willing to take on development and management risks. The Japanese, on the other hand, are still learning from their investments in other U.S. cities. They have limited their risk and exposure in a new market by joint venturing outright purchases or development deals with well-respected development companies or large domestic institutions.

Foreign investors have exclusively sought out office buildings in the CBD and shunned investment opportunities in the suburbs. Most foreign investors are willing only to invest in high-quality, well-located, name buildings in the CBD.

The Appeal of Chicago to the Foreign Investor.

Until recently, most new foreign investment in the United States has been in the so called "first tier" coastal cities in the west or the east. Chicago had been considered a second tier or second choice city. But now, as one professional in the brokerage community said, "Chicago has been discovered." This statement should really read, discovered by the Japanese, because most of the increase in recent purchase activity can be attributed to their presence. The British, Dutch and the Canadians have been active in the market for some years now, and have maintained steady investment patterns.

The recent interest by the Japanese has occurred as they have become more familiar with the city. Because Chicago is not a port of entry, many top executives at large institutions overseas are unwilling to give quick approval for an investment in an unfamiliar city. This has changed as first choice cities have become saturated with foreign investment and investors have begun to learn more about other markets. In a search for higher returns and geographical diversification, they have come to Chicago. Upon visiting, investors are amazed by the size and beauty of Lake Michigan and by the number of quality, high-profile, signature buildings in town.

The continued strength of the yen and of other foreign currencies versus the dollar has made foreign investments in U.S. real estate a bargain. To those foreign investors who have been investing in expensive markets such as New York, Washington D.C., and Los Angeles, Chicago appears to be a bargain. Land can be purchased for $700-$900/Sq.Ft. or $30/FAR Sq.Ft., and trophy buildings have recently traded from $150-$200/Sq.Ft..

More important to these investors is the current and future heath of the local economy. As the third largest metropolitan area in the U.S., Chicago is the economic capital of the midwest. Although the region's economy is still heavily based upon industry and agriculture, it has recently become a strong banking and financial center. This change, despite recent large manufacturing declines and a weak farm economy, has helped Chicago become a more service-oriented city. This economic diversification away from manufacturing will help the city avoid the negative effects of a downcycle in the economy.

Proof of Chicago's strength and ability to surge through rough times came last year. Because of much construction, the largest amount of office space in history came to the market; yet the vacancy rate remained unchanged. Much of this space was taken by the growing office-intensive employment sectors of law, accounting, finance, and business services. With less space coming on line next year, the market should tighten up.

The large presence of foreign banks and financial institutions has attracted other foreign investors to Chicago's real estate market. The foreign banks and financial institutions provide a network for their relationship-driven foreign clients. The latter see an advantage in being nearby Chicago's manufacturing and industrial base into which firms from their homeland have moved. The permanence of the manufacturing and financial industries in Chicago's fabric has set the stage for large foreign institutions to make investments in Chicago's real estate market.

Some Japanese investors, such as Tasei, a large construction company from Japan, come to Chicago to stake their claim and be the leader. For Tasei, which came to the States only recently, investing in other more desirable cities where investors have been active since the early 1980s, would have meant buying second-best properties. In Chicago they see an opportunity to be the first Japanese construction company to invest in a ground up development. That the conservative

Tasei would make a move into the under-explored Chicago market made other Japanese firms conscious of another viable investment opportunity. Many of these firms have since invested or plan to invest in Chicago.

Chicago has the second largest CBD office square footage in the country. It is the home of the domestic commodities exchange, and it has a myriad of magnificent office towers. Through its high volume airports, railroads, waterways, and expressways, it acts as the nation's transportation hub and serves as a major distribution center linking the east and west coasts. Its growth rate has surpassed the national average despite the ecomomic depression throughout the rustbelt. It has always been a very strategic investment for domestic players. So why has foreign investment in Chicago lagged other cities?

The biggest reason seems to be the lack of familiarity with the market. Foreign investors are familiar with New York and Los Angeles as ports of entry, while Washington D.C. has the recognition as the nation's capital. This unfamiliarity goes all the way down the line to the small investor. In the case of Japan, if high ranking executives overseas have not heard of Chicago, firms cannot expect to sell off their real estate investments in syndication to small investors.

The relative softness of the Chicago market compared to the booming ecomomies of the first tier cities provides another explanation for the limited interest. With vacancy rates of 12%-13% compared to 9% in these other cities, investors worry that the market cannot continue to support its recent growth. With record amounts of new space having come to the market and the vacancy rate remaining unchanged, many people are bullish on the office market. But these data are tainted by the fact that developers have been through a "blood bath" to get their space leased up. Many developers were forced to buy out old leases and provide large tenant concessions to get their buildings filled. When these old, less desirable leases expire, 25% of the market will rollover.[30] With whatever new construction comes on line, one can expect vacancy to increase. The prospect of such a market makes it tough for the investor who wants a guarenteed minimum return each year.

For those investors who have the deep pockets to survive downturns in the market and who have faith in the long term success of Chicago, investment makes sense. The only problem is the lack of available product. Foreign investors perceive that Chicago is owned by the major U.S. life companies.[31] With the local mentality to build, to mortgage, and to hold, many investors have been discouraged when they come to town, identify buildings to purchase, and find out that these buildings cannot be bought. Owners are disinclined to sell because the occupancy and the leases in their buildings have not reached their full potential.

Some buyers are turned off by Chicago's lack of supply constraints. Presently there are many available, downtown sites to develop. There are also no artificial restraints imposed by the local government agencies to limit the size or height of a building. The permitting process depends on which law firm you use and whether your alderman, who controls the town council, likes your project. Because most construction is based upon the availability of financing, millions of additional square feet could be added to the market in a short period of time. This potential oversupply of space competing for a limited supply of tenants makes an investor wary of paying top dollar to purchase a signature building, when a better building could be built next door to his. The overall lack of supply constraints does not satisfy the criteria of many foreign investors who invest only where they can hedge their investments against future competition. Investors from constrained markets, like Hong Kong, Tokyo, and London look for investments that resemble real estate at home where appreciation has been extraordinary. With restrictions upon the future supply of office space, investors can better predict the future returns of an investment.

Chicago Today

Having been "discovered", Chicago's investment climate has changed a great deal in the last year. There has been a dramatic increase in foreign ownership, in particular by the Japanese. With the help of the growing financial and service industries, these investors have had much greater access to information about properties, potential partners, and lending institutions--both foreign and domestic. According to last year's research, foreign investors owned approximately 10% of the CBD office supply. Today, of the approximate 110M Sq. Ft. built or under construction in the CBD, they own 20%. The Canadians were the largest foreign owners in the CBD, but have recently been surpassed by the Japanese. Currently the Canadians have a 7.5% interest in the CBD, whereas the Japanese, in the mere two years that they have been active, have accumaulated close to a 10.0% interest.

Most of the recent transactions made by foreign investors occurred in 1987 before the stock market crash. Of the 19 deals, (both finished product and development deals,) involving foreign interests, 13 were done by the Japanese. Since "the crash", and in the first two quarters of 1988, only 2 deals have taken place, both by the Japanese. It is clear that "the crash" had short-term effects upon foreign investors' confidence in the Chicago real estate market. Not until the beginning of 1988 did activity and interest commence. The deals that had been in the works to close in 1987 had to be renegotiated or remarketed to new clients after the first of the year.

One large deal that gained the attention of the press was Shuwa Corp.'s planned purchase of 3 Chicago buildings from Equitech Properties Co. of Oakland. For $250M, Shuwa was going to purchase 2 N. La Salle St., 11 E. Adams St., and 200 W. Adams St.. It was described as a nearly completed transaction in the October 19th issue of Crain's Chicago Business which read, "Free-spending Japanese firm nabs Loop sites."[32] But a month later at the official closing Shuwa did not show up, and the deal was dead. A broker involved in the deal blamed the post-crash environment of uncertainty on the unwillingness by Shuwa to take on the risk of leasing the empty space in the buidings. 200 W. Adams was 50% vacant, 2 N. LaSalle 30%, and 11 E. Adams 10%.

Jim Ablan of Grubb & Ellis agrees that "the crash" had its immediate effects at the end of 1987 but does not believe it to be the cause for the continued slowdown in the first two quarters of 1988. "If anything, the crash helped the Chicago real estate market, by showing investors it can withstand bad times. The recent slow down had to do with the the perception of overpaying and loss of face. The Japanese life companies need to report to their stock holders that they are making wise investments. The Ministry of Finance also stepped in and slowed the pace of investment."[33] He expects to see strong 3rd and 4th quarters, as more deals should close soon.

Some feel that "the crash" stalled activity for a few months but that it helped Chicago real estate. Because of the volatility of the capital markets, real estate is seen as a more stable investment. John Oharenko of Cushman & Wakefield agrees with this as he has seen an increase in interest from foreign investors in the last two quarters compared to 1987. "Interest is up, but only a few buildings have traded in the first two quarters of 1988."[34]

An explanation for this is that most of the available buildings were snapped up by the Japanese in 1987. The available stock today is of lesser quality or location. Of the buildings that satisfy the criteria of the Japanese, who are the active buyers in this market, most are being held off the market by their owners until they achieve an occupancy level that will warrant top dollars from these anxious investors. A number of investors have not entered the market because they are interested only in the best buildings owned by deep pocket domestic instituions. Jay Pauzer and Tony Smaniotto of Coldwell Banker have entertained investors who "Come to town, and want to buy the Shell Building, the AT&T Building, the Sears Building, The Hancock, the 1st Natioanl Bank Building, and Watertower, only to find out that they are not available." When many of the buildings finished in 1986 and 1987 attain full occupancy there should be more trophy quality buildings available.

For Japanese investors who are now comfortable with the Chicago market, outright purchases are hard to come by for the above cited reasons. Intending to place their capital in the safe U.S. market, investors have taken the attitude that "if you can't buy them, back them."

Webster's dictionary defines investment: "the outlay of money usu. for income or profit : capital outlay." This definition qualifies much of the foreign investment activity in Chicago. Foreign banks and institutional investors have provided construction financing, convertible or participating debt, or outright equity and financial backing in development deals. Having learned from their experiences in Los Angeles and New York, foreign investors have joint-ventured a number of deals with domestic partners to help with management and lease up. These joint-venture arrangements offer the foreign investor the security of a domestic partner and the opportunity to learn from this partner.

In fact, most deals in Chicago involving Japanese investors are on a joint venture basis with large domestic institutions or local developers who cannot resist the cheap money being offered for an interest in their deals. Even those foreign institutions not taking an ownership position are satisfied to place their capital in the U.S. real estate market by funding construction loans. The following are some of the buildings that foreign investors have joint ventured either with convertible or participating debt or through the purchase of a partial interest:

1. Nissei Realty, in their 50% purchase of 1 Prudential Plaza and the rights to develop 2 Prudential Plaza, will also provide a $140M construction loan for the second phase development. Prudential will retain a 50% stake.

2. Nissei in a partnership with The Travelers purchased the 190

S. LaSalle Building. Nissei paid $60M for their 50% interest. Both partners provided permanent financing as well.

3. Sumitomo Trust has placed a $50M convertable mortgage on the Xerox Centre for a 50% interest.

4. At 100 N. Riverside, Orient Leasing, in a Joint Venture with Rubloff has provided debt and equity financing for this new development.

5. Dai-Ichi Mutual Life purchased a 50% interest in the Hartmarx Corp. Headquarters for $37.5M. Their partner is Metropolitan Life.

In Chicago, Japanese investors, as they have in other large U.S. cities, have invested almost exclusively in office buildings in the CBD. In particular, they show strong preference for new construction or relatively new buildings in the financial district, an area bounded by Wacker to the West, State St. to the East, Congress Parkway to the South, and the Chicago River to the North.[35] The exception to their exclusive purchases of office space would be the Nikko and Fairmont hotels.

The other foreign investors active in the market have been the Dutch with two outright purchases of finished product, the Swiss with one purchase and one development, and the Canadians with two development deals:

Fidinam USA of Switzerland recently purchased the Manufacturers Hanover Plaza for $144M of $186/Sq.Ft.. Swiss Air is currently developing the 640-room Swiss Grand Hotel.

The WILMA and VIB Dutch Pension Fund purchased the old Ryan Insurance Bldg. at 55 W. Wacker for $16.24M. The building was empty at the time of the sale. WILMA also purchased 222 N. Dearborn for $16M.

The Canadians, who most resemble domestic investors because of their experience and time in the market, have not lately been the most active buyers, but do have some development in the works. BCE of Canada is developing Riverfront Park III, a 1M Sq.Ft. office building at Dearborn and Clark. They are also developing a mixed-use project at 700 N. Michigan.

The Japanese have also been able to make their presence felt in the Chicago real estate market by buying a part interest in two full service real estate companies. Last August, Orient Leasing acquired a 23.3% stake in Rubloff.

From the investor's side, Orient sees this partnership as crucial to its future plans in the U.S.. With $1.2 billion in revenues and total assets in excess of $14 billion, it will now have close ties to domestic expertise, thereby protecting itself in future investments. As far as Rubloff is concerned, the deal provides an equity infusion and increases the company's financial strength.[36]

A more recent deal has Dai-Ichi Mutual Life acquiring 20% of LaSalle Partners. This relationship will serve both sides similarly. For LaSalle, an added incentive for the transaction was to generate cash to buy out some of the older partners in the firm, thus providing room at the top for younger executives.[37]

Another recent joint venture occurred in Japan involving the Chicago based Balcor Co, a subsidiary of Shearson Lehman Brothers. The new company, The American Investment Management Co., has as partners Misawa Homes Co, Ltd., Orient Finance Co. Ltd., C. Itoh Co. Ltd., and the Japanese affiliate of American Express Bank, AMEX Finance Japan Ltd. The new company was set up exclusively to market U.S. real estate investments to Japanese investors.[38]

APPENDIX 4

FOREIGN REAL ESTATE INVESTMENT DATA IN THE CHICAGO CBD

FOREIGN REAL ESTATE INVESTMENT IN CHICAGO

*-Under Construction PL-Planned R-Rehab

	PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
1.	AT&T Corporate Center Monroe St. & Franklin St. Phase I & II	Yasuda Life/ Japan	1988	$600M	1,488,000 Sq. Ft. 850,000 Sq. Ft.		1989* 1992PL	Yasuda is providing debt, and will then float bonds to the public. There is a pending sale to a Japanese Life Co. for $380M.
2.	Avondale Center 20 N. Clark	Honzawa Family/ Japan	1988	$47.5M	362,000 Sq. Ft.	$131/Sq. Ft.	1980	100% ownership. The seller Collins Tuttle turned down a $48M offer from Lehndorff and retained the management agreement of the Center as part of the sale to Honzawa.
3.	Dearborn Center 111 S. Dearborn	Bramalea Limited/ Canada			1.1M Sq. Ft. 1.5M Sq. Ft. PL		1992PL	Purchased old Wards building.
4.	Fairmont Hotel 220 N. Columbus Dr.	Mitsubishi Bank, and other Japanese Banks/ Japan	1987	$115M	632-room, 60-suite hotel		*	Jouint Venture with Swieg Family.
5.	Hartmarx Corp. Headquarters 101 N. Wacker Dr.	Dai-Ichi Mutual Life/ Metropolitan Life Japan/USA	1987	$37.5M	575,000 Sq. Ft.	$130/Sq. Ft.	1980	Dai-Ichi purchased a 50% interest.
6.	Inland Steel Bldg. 30 W. Monroe	Misawa Homes/ Japan	1987	$35M	213,000 Sq. Ft.	$164/Sq. Ft.	1957	100% ownership.
7.	Madison Plaza 200 W. Madison	Equitable/Chase USA/Japan	1987	$225M	1,000,000 Sq. Ft.	$225/Sq. Ft.		Bought at a cap. rate below 7%.

FOREIGN REAL ESTATE INVESTMENT IN CHICAGO

*-Under Construction PL-Planned R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
8. Manufacturers Hanover Plaza 10 S. LaSalle	Fidinam USA/ Switzerland	1987	$144M	774,000 Sq. Ft.	$186/Sq. Ft.	1987	100% ownership, new construction.
9. Nikko Hotel Dearborn & The Chicago River	Sumitomo Life Realty/ Japan	1987	$75M	20-story, 425-room hotel		1988*	A convertable motgage at 10% was placed on the property. 40% converts after 10 years, then into 50% after 5 more years.
10. One Sansome St.	Japan	1986	$100M	545,000 Sq. Ft.			50% ownership.
11. Olympia Centre 161 E. Chicago	Olympia & York/ Canada	1983	$67M	335,190 Sq. Ft.		1990*	100% ownership.
12. 1 Prudential Plaza 130 E. Randolph	Nissei Realty,Inc/ Prudential Insurance Co. Japan/USA	1987	$110M	1,100,000 Sq. Ft.		1957	50% JV Deal in Excess of $250M.
13. 2 Prudential Plaza 130 E. Randolph	Nissei Realty,Inc/ Prudential Insurance Co. Japan/USA	1987	$90M	950,000 Sq. Ft.		1989*	$140M Construction loan, 50% ownership.
14. Quaker Tower 321 N.Clark	BCE/Canada	1987	$170M	828,000 Sq. Ft.	$205/Sq. Ft.	1987	Currently 100% ownership, but negotiating to sell 100% to Shuwa Investments Corp. for $200M.
15. Riverfront Park III Dearborn & Clark	BCE/Canada			1,000,000 Sq. Ft.		*	100% ownership.

FOREIGN REAL ESTATE INVESTMENT IN CHICAGO

*-Under Construction　　PL-Planned　　R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
16. Swiss Grand Hotel 323 E. Wacker	Swiss Air & Nestle/ Switzerland	1987		640 room hotel		*	
17. Three First National	Hines/Royal Dutch Shell USA/Dutch	1981	$240M	1,370,000 Sq. Ft.			
18. World Trade Center On the Chicago River between Clark & Dearborn	BCE/Canada			850,000 Sq. Ft.		1991*	BCE also developed the Nikko Hotel
19. Xerox Centre 55 W. Monroe	Sumitomo Trust/ Japan	1987	$50M	750,000 Sq. Ft.		1981	A $50M Convertable mortgage placed by The Sumitomo Trust and Banking Corporation for 50% of the project
20. 20 N. LaSalle	Allied Lines Pension Fund/ Great Britain						
21. 35 E. Wacker	Marex/Canada	1981	$55M	544,000 Sq. Ft.	101/Sq. Ft.		100% ownership.
22. 33 N. Dearborn Bldg.	Barclays/ British	1983	$44.7M	316,775 Sq. Ft.	$141/Sq. Ft.		100% ownership.
23. 55 W. Wacker Bldg.	WILMA & VIB Dutch Pension Fund/Klaff Realty Dutch	1987	$16.24M	214,000 Sq. Ft.	$76/Sq. Ft.	1967	Building was empty at time of sale. Was former Ryan Insurance Bldg.

FOREIGN REAL ESTATE INVESTMENT IN CHICAGO

*-Under Construction PL-Planned R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
24. 100 N. Riverside	Orient Leasing Co./ Rubloff Japan/USA	1987		750,000 Sq. Ft.		1990*	Orient Leasing provided debt and equity financing. Illinois Bell is the anchor tenant.
25. 123 N. Wacker	Orient Leasing Co./ Rubloff Japan/USA	1987		525,000 Sq. Ft.		1986	This is Rubloff's first office development. Orient Leasing has the mortgage and owns 23.3% of Rubloff. Dai-Ichi may be purchasing 50%.
26. 190 S. La Salle	Nissei Realty/ The Travelers	1987	$60M	785,000 Sq. Ft.		1986	Nissei bought 50% for $60M. Both Partners contributed equity and provided permanent Financing.
27. 222 N. Dearborn	WILMA/Dutch	1987	$16M	181,000 Sq. Ft.	$88/Sq. Ft.		
28. 225 W. Wacker	North America Tasei Corp./ The Palmer Group Japan/USA	1987	$100M	648,000 Sq. Ft.	$154/Sq. Ft.	1989*	Tasei provided Equity to the joint venture, and will act as construction managers. Palmer will act as developer and Leasing angent. $100M construction financing was provided by Bank of Tokyo & Fuji Bank.
29. 303 W. Madison	Jaymont Properties/ Saudi Arabia	1987	$43.5M	293,549 Sq. Ft.	$148/Sq. Ft.	1987	100% ownership
30. 332 S. Michigan	Schroder/Dutch	1981	$42.3M	423,000 Sq. Ft.	$100/Sq. Ft.		100% ownership

FOREIGN REAL ESTATE INVESTMENT IN CHICAGO

*-Under Construction PL-Planned R-Rehab

PROPERTY NAME/ADDRESS	OWNERS/ NATIONALITY	TRANSACTION DATE	TRANSACTION VALUE	NET RENTABLE Sq. Ft.	PRICE/Sq. Ft. NET RENTABLE	YEAR BUILT	COMMENTS
31. 500 N. Michigan	Individual/Saudi Arabia	1980	$20M	600,000 Sq. Ft.			
32. 700 N. Michigan Bldg.	BCE/Canada					*	Mixed use Development
33. 900 N. Michigan Ave.	Dai-Ichi Kango Bank, Fuji Bank, Sumitomo Bank, Mitsui Bank, and The Bank of Tokyo Trust.	1987	$450M	500,000 Sq. Ft.		*	JV Mixed use project with Urban Investment and Development Corp., a division of JMB.

Total Sq. Ft. built, under construction or planned in the CBD that is wholly or partially owned by foreign interests. (1988)	21,370,514 Sq. Ft.
Approximate total Sq. Ft. built, under construction, or planned in the CBD. (1988)	107,000,000 Sq. Ft.
% wholly or partially owned by foreign interests.	19.97%

While every attempt was made to be thorough and accurate, some foreign owned properties may have been overlooked, and some inaccuracies may exist in the data.

CHAPTER 5

CONCLUSION

Foreign investment in U.S. real estate is not a fad but rather a world market phenomenon bringing returns on investments closer to equilibrium. With nominal interest rates in other countries much lower than in the United States, U.S. real estate offers foreign investors high returns in a political environment that stands for free enterprise. The large U.S. trade deficit caused by our penchant to spend more than we take in, leaves foreigners with large amounts of dollars that need to be invested. The lack of satisfactory investment opportunities abroad have led these foreign investors to repatriate dollars into the capital markets, manufacturing, and real estate. The biggest reason for the large inflow of foreign capital has been the decrease in the value of the dollar against most foreign currencies. This has made prime real estate inexpensive and accessable. Foreign investors have willingly paid top dollar and outbid domestic investors for institutional grade properties because these properties are a great bargain for them. Compared to the real estate values in places such as Tokyo, where real estate now cost upwards of $4,000/Sq.Ft., the record prices of $400-$500/Sq.Ft. in New York and Los Angeles are inexpensive.

Since the stock market crash on October 19th, 1987 foreign investment in the United States slowed down and has yet to regain its pace of 1986 and 1987. This is not to say that interest by foreign investors is less, but rather fewer buildings have traded. In speaking with brokers in Los Angeles, Washington D.C., and Chicago the consensus is there are more interested foreign investors this year than in the past, but there are less institutional grade buildings available in these markets. In many people's minds, the crash generated this new foreign interest in the U.S. real estate. With the continued desire by foreigners to invest their capital savings in the United States, the instability of the U.S. capital markets has made U.S. real estate the best alternative.

Since last year's research, foreign investment in Los Angeles has increased to 70% in the central business district.

Los Angeles has not had any big deals to speak of in the last year, but a number of smaller deals in the $25M-$100M range have occured. Because of the lack of available trophy buildings in the CBD, foreign investors have started to vertically integrate backwards into development. Non-institutional foreign investors, such as real estate companies, construction companies, and wealthy individuals have begun to diversify by product type and into the sub-markets.

Foreign ownership in Washington, D.C. has increased to 33% in the CBD. Since last year's study, a few smaller properties have traded, but only one notable sale to a foreign concern was recorded; that of the U.S. News and Report Building to Shuwa for $80M. This transaction, which took place days before the crash, set a new record of $500/Sq.Ft. for Washington D.C.. The only other large purchases to take place have been by domestic intitutional investors who have made a move to invest less in the capital markets and more in real estate. The Canadian and European investors are active in rehabs and development. The Japanese have yet to vertically integrate into development.

Chicago has been "discovered" since last year's research. Set in the heartland of the United States, it is not the traditional coastal city foreign investors have preferred. Canadian investors have been active there for some time as have the Europeans to a lesser extent. The story today in Chicago is the recent rush by Japanese investors. Japanese investment in Chicago lagged the first wave of capital flow into the United States. This initial flow of capital went into first tier cities such as New York, Los Angeles, and Washington D.C.. Not until 1986 did Chicago have its first Japanese invetor. Since then the Japanese have invested in upwards of 10% of the central business district. Foreign investment in the CBD has increased to 20% since last year's study.

Since the crash, Chicago has seen foreign investment trend similar to Los Angeles and Washington, D.C.. A few development deals with domestic partners are under way, but there have not been any significant deals since the crash. A large, three building deal betweeen Equitech and Shuwa was terminated in the wake of crash.

Real estate professionals saw foreign investors resume interest at the beginning of this year, yet there are few sales to speak of. These professionals expect this interest to produce a number of transactions in the 3rd and 4th quarters this year. The first evidence of this occurred this

August in Boston. Nomura securities purchased a 50% interest in 53 State St. from Olympia and York. Nomura paid \$450/Sq.Ft.--\$120 a foot more than any other building in Boston has ever sold for. At this rate the transaction makes 53 State, better known as Exchange Place, worth nearly \$500M.[39] If more transactions of this scale take place in the 3rd and 4th quarters this year, the post-crash slow down will have come to an end.

FOOTNOTES

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